



# *ICAEW tutor conference 2018*

**CORPORATE REPORTING**

# *Agenda*

- General introduction - progression from Certificate and Professional Levels
- Overview of Corporate Reporting Syllabus and skills and ethics – steps in writing the questions
- Professional skills update project and CBE

## Break

- Marking process - Views from the markers on why candidates fail
- How to answer Advanced Level exams – and how to fail!
- Exercise – How did candidates perform - November 2017 – sample candidates scripts

# Certificate Level

**ADVANCED  
LEVEL**

Case Study

Corporate Reporting

Strategic Business  
Management

**PROFESSIONAL  
LEVEL**

Business Planning:

Business Strategy

Audit and Assurance

Financial  
Accounting and  
Reporting

Financial  
Management

Tax Compliance

**Self study bookkeeping module**

**CERTIFICATE  
LEVEL**

Accounting

Assurance

Business  
and Finance

Law

Management  
Information

Principles of  
Taxation

# *Professional Level*

**ADVANCED  
LEVEL**

Case Study

Corporate Reporting

Strategic Business  
Management

**PROFESSIONAL  
LEVEL**

Business Planning

Business Strategy

Audit and Assurance

Financial  
Accounting and  
Reporting

Financial  
Management

Tax Compliance

Self study bookkeeping module

**CERTIFICATE  
LEVEL**

Accounting

Assurance

Business  
and Finance

Law

Management  
Information

Principles of  
Taxation

# *Advanced Level*

**ADVANCED  
LEVEL**

**Case Study**

**Corporate Reporting**

**Strategic Business  
Management**

**PROFESSIONAL  
LEVEL**

**Business Planning**

**Business Strategy**

**Audit and Assurance**

**Financial  
Accounting and  
Reporting**

**Financial  
Management**

**Tax Compliance**

**Self study bookkeeping module**

**CERTIFICATE  
LEVEL**

**Accounting**

**Assurance**

**Business  
and Finance**

**Law**

**Management  
Information**

**Principles of  
Taxation**

# *Progression to Corporate Reporting (CR)*

- Technical progression – new topics
- Skills progression
- Ethics
- Importance of brought forward knowledge

# *Corporate reporting – Overview*

- Exam format (3½ hours)
- 3 questions (100 marks)
- Each exam will contain questions requiring integration of knowledge and skills, including ethics
- Open book exam – any written or printed materials
- Tax may feature in context of financial reporting

# *Corporate reporting– Syllabus*

Topic	Weighting
Corporate reporting	55 - 65%
Audit and assurance	30 - 40%
Ethics	5 - 10%

# *Corporate Reporting*

## Main syllabus areas

Financial reporting

Audit and assurance

Integrated learning  
outcomes

Ethics



## Skills

**Assimilating and  
using information**

**Structuring  
problems and  
solutions**

**Applying  
judgement**

**Concluding,  
recommending  
and  
communicating**



## Questions

Q1 – mini case  
FR and A&A

Q2 - FR

Q3 FR and A&A

# ***Steps in writing the paper***

Team of writers and reviewers

Academics and practitioners

Student moderators

ICAEW board with the case team

ICAEW exam boards

Away days and moderation

First draft circulated

Syllabus and skills

Scenario - circulated by writers

# *Corporate Reporting syllabus*

## **Financial Reporting**

- Principles
- Reporting performance
- Assets and non-financial liabilities
- Financing
- Employee remuneration
- Groups
- Reporting overseas activities
- Taxation

## **Audit and Assurance**

- Professional practice
- Planning
- Internal control systems
- Corporate governance
- Audit evidence
- Reporting and concluding
- Assurance engagements
- Other engagements

# *Financial statement analysis*

- Analyse and evaluate performance
- Appraisal of nature and validity of items in financial statements and reports
- Interpretative in the context of appraisal - for example corporate governance arrangements, accounting policy choice
- Comparative performances related to accounting policy choices
- May involve adjustments to be processed before and after analysis – **and financial statements to be revised first.**

# *Financial statement analysis*

Also in an audit and assurance context:

- Analytical procedures – at various stages of audit
- Part of risk analysis to evaluate business risk and financial risk
- Comparing significance of accruals basis and cash flow reporting

# *Integrated learning outcomes*

- identify and explain corporate reporting and assurance issues in respect of social responsibility, sustainability and environmental matters for a range of stakeholders
- critically evaluate accounting policies choices and estimates, identifying issues of earnings manipulation and creative accounting
- critically appraise corporate reporting policies, estimates and measurements for single entities and groups in the context of an audit.

# *Corporate Reporting – analysis of a paper*

<b>Question</b>	<b>Approximate marks</b>	<b>Description</b>
1	40	Mini case. Scenario based question in context of auditing but with significant corporate reporting emphasis. This may be technical compliance or interpretive (e.g. analytical procedures)
2	30	Corporate reporting
3	30	Audit and corporate reporting (may include assurance, internal audit)

Ethics and financial statement analysis may feature in any of the questions

## *Brought forward knowledge*

- Financial Accounting and Reporting
- Audit and Assurance
- Ethics
- Law

# *Ethics*

- Could be in any question
- Ethical dilemma
- Identify ethical issues (professional scepticism)
- Identify ethical actions
- Balanced approach
- CR – Role could be the accountant in practice (e.g. auditor); or the accountant in business (e.g. preparing financial statements)

# *Ethics*

- Apply professional scepticism (questioning mind)
- Ethics can be embedded in the scenario – although requirement will refer to ethical issues
- Use ethical language and principles (not just generalised opinions)
- Refer to ethical codes where appropriate
- Weak answers:
  - identify one issue only
  - fail to identify the perspective
  - Take a one-sided view (unbalanced)
  - do not use ethical framework
  - do not use ethical language

# *Taxation*

- No specific tax
- Tax treatment for the jurisdiction in the scenario will be given in the question

## EXAMPLES

- Tax treatment given in question for candidate to determine tax base in deferred tax question (in CR paper)

# *Overview of Professional skills update*

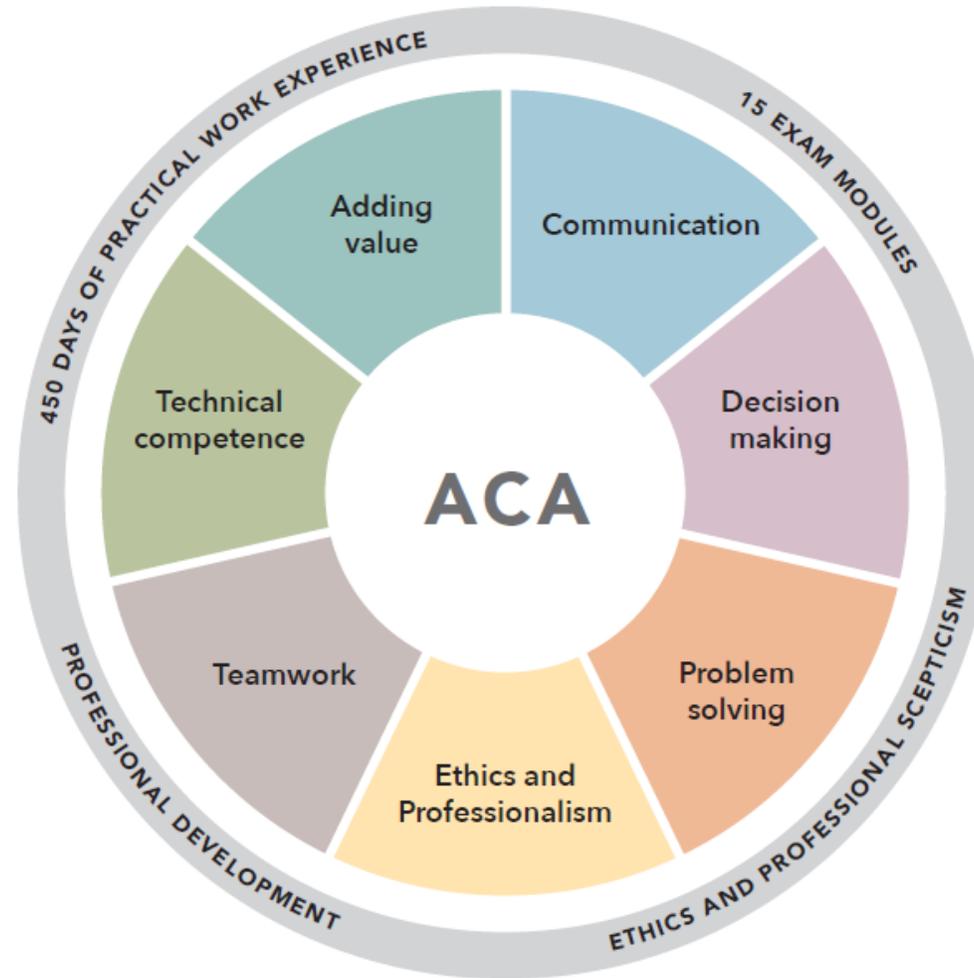
## Background

Project undertaken by ICAEW identified 5 key professional themes:

- Adaptability
- Insight
- Collaboration
- Perspective
- Learning and reflection

Resulted in a reconsideration of the 7 professional development skills which form the skills development required to be completed by ICAEW students.

# *Updated professional development skills*



# *Updated professional development skills*

- What does this mean for the technical exams?

Exam skills development grids revised but still grouped under the same four headings:

**Assimilating and using information**

**Structuring problems and solutions**

**Applying judgement**

**Concluding, recommending and communicating**

No change to the way exams are set

No change to the way the exams are marked

Advanced Level **always used** skills to direct marking team and produced indicative skills in the published mark plan.

# *Exam skills development grids – examples in CR paper for November 2017*

For example – Adaptability seen as a key theme from research conducted by ICAEW with employers.

- November 17 question 1 required changes to an audit plan because of the impact of a takeover of the client – this resulted in a number of both technical and ethical issues: Relevant adaptability skills assessed here could be:
- *Identify and anticipate problems that result from a decision* –the changes to the reporting deadline imposed by group auditor would raise both technical challenges and also link to the ethical challenges presented to the entity auditor
- *Evaluate the relevance of information and use multiple sources* - question 1 has a number of exhibits that provide different aspects to be assimilated to structure potential control risks – change in ownership – change in responsibility for routine accounting – new international sales channel – loss of key finance personnel.

## ***Updated skills grids – linked to exam questions***

- November 17 question 3 – presented the candidate with the results of a data analytics dashboard – and journals processed by the entity - interpretation of this demonstrated the skill to *use a range of data types and sources to inform analysis and decision making.*

The updated exam skills development grids will continue to form a key part of the design and marking of questions – see the ICAEW web page.

- <https://www.icaew.com/en/learning-and-development/campaigns/professional-skills-update>

# *Skills in summary*

Skill	Can the candidate:
Assimilating and using information	Use information, provide analysis, appreciate its significance.
Structuring problems and solutions	Define the problem, develop solutions to fix it.
Applying judgement	Identify significant factors/issues, apply a sceptical and critical approach.
Drawing conclusions and making recommendations	Formulate reasoned recommendations and opinions, set out advice, options, reservations based on valid evidence.

# *CR and CBE 2018*

- All CBE exams from July 2018
- Style/structure of exam not affected
- Follow advice in most recent ICAEW CBE Guide on website
- **CANDIDATES SHOULD PRACTISE PRODUCING ANSWERS USING CBE ICAEW RESOURCES**

## *CR and CBE 2018*

- All narrative must be visible – examiner cannot interrogate cells
- Quality of typing/proofing: text must be understandable
- If using formulae in cells for calculations (consider including workings)
- Clarity of tables – rows should be labelled

*Questions & Answers before break*



# *Marking process*

- Scoris - on line marking
- Design of papers is a joint process
- Two separate marking teams – common examiner and moderator
- Marking grid refined on the basis of initial assessment of student performance – later published as the ‘tutor marker guide’
- Markers’ meeting - 2 pre-meeting scripts, 1 common script marked at the meeting
- Standardisation and seeding scripts

# *The marking process*

- Markers have no information regarding centres
- Marginal scripts and random scripts second marked by examiner
- Seeding and standardisation scripts
- ICAEW provide limited information during the process – statistics on variation from average by marker and seeding performance by marker

# *During the marking process*

- Limited data only provided during the process
- Marking accuracy controlled by seeding scripts
- First marking complete report consists of seeding information and the difference of each marker from the mean
- Remark of all 48% 49% and 50% by the examiner
- Remarks out of this range only with agreement of senior moderator

# *After the marking process is completed*

Data made available to the examiner to prepare a report for the assessment committee including:

- Average marks per question for each marker
- Average mark for each marker
- Mark distribution for each marker
- Pass rate for each centre
- Pass rate for first/second attempt candidates
- Alpha student pass rates (discriminator)

# *Advice to candidates*

- Identify the big issues
- Look for links between issues
- Look for embedded points (gateway marks)
- Apply professional scepticism
- Apply realism
- Answer requirements in order within a question
- Start new page for each requirement

# *How to approach Advanced Level exams*

## Skills

“It’s not so much what you know – it’s what you do with what you know”

- Marks available for demonstrating knowledge and understanding; but
- More marks for using knowledge, applying skills in context of scenario.
- Open book – examiners know this! – avoid “knowledge dumping”

## *How to fail*

- Poor layout
- Disorganised workings – use headings
- No conclusions (sitting on fence) or concluding by assertion without justification
- Generic answers unrelated to the scenario
- Accept at face value assertions made by characters in the question

# *How to fail?*

- Merely repeating information given in question
- Missing out parts of questions
- Inability to link IAS/IFRS to resolve an issue
- Not explaining how and why audit procedures are performed
- Answering requirements within a question in random order – the order of the requirements are designed to be logical and to help the candidate
- Identifying generic risks – not using the word ‘because’ to explain.

# *How to fail?*

- Significant gaps in both brought forward knowledge
- Poor language skills – evidenced by very brief explanations – and limited identification of range of issues
- Not seeing ethical issues from different perspectives – or seeing the ethical issue from the wrong perspective (November 2017 Q1)
- Not following the suggested layout of the answer given in the question
- Poor time management

# *Questions & Answers*



*Results and statistics –  
July and November 2017 pass rates*

	Corporate Reporting	Strategic Business Management
July 2017	(n =2,769 ) 79.8%	(n = 2,522 86.5%
November 2017	(n = 2,895) 83.2%	(n = 2702) 85.3%

## *Average marks by Question*

	1	2	3	Total
July 2017	64.3%	60.9%	50.6%	59.2%
November 2017	55.2%	70.9%	56.0%	60.2%

# *CR – November 2017 – Question 1 EF Ltd*

EF Ltd	Details
Financial reporting	Technical areas: brand recognition, goodwill, investment property and receivable allowance
Assurance	Identify the changes to elements of the planned audit approach – identifying key areas of audit focus from different sources of information.
Ethics and corporate governance	Ethics: for the <b>audit firm</b> <ul style="list-style-type: none"><li>– intimidation threats from both the client and the group auditor</li><li>- Self interest threats – potential for significant non audit work</li><li>- Audit quality issues through deadline changing</li><li>- Objectivity – requirement not to be influenced by others to override judgement</li></ul>

# ***CR November 2017 question 1 – How did candidates perform?***

## **Part a) Financial reporting**

- A small minority of candidates misread the requirement and attempted to provide accounting treatment of items in Exhibit 2, as opposed to the attachment to Exhibit 2
- EF brand - Most candidates correctly stated that the brand could not be recognised in EF's financial statements but could be recognised on consolidation. They were less skilled at explaining the reasons why
- Goodwill – As with the brand, candidates could state that goodwill is not recognised in individual financial statements but will be recognised on consolidation. However, the explanation of why goodwill could not be recognised in EF's accounts was often lacking or inaccurate.

# ***CR November 2017 question 1 – How did candidates perform?***

- PPE and investment property – candidates correctly recognised that the rented-out portion could be classified as an investment property, but then lost marks by not explaining the correct accounting treatment for an IP adopting a fair value model.
- A common error was to state that the change in classification should be dealt with under IAS 8 when the correct treatment under IAS40 is to apply IAS 16 with a change of use requiring revaluation gains to be taken to OCI
- Trade receivable allowance – many candidates applied inappropriate standards e.g. IAS 8, 37 and 36. Few candidates accurately identified that the movement was a change in estimate, rather than a correction of an error or change in policy, and therefore should be accounted for through profit or loss.

# ***CR November 2017 question 1 – How did candidates perform?***

## **Part b) changes in the audit plan**

- This requirement was well answered, with a significant number of candidates scoring maximum marks
- candidates considered the higher-level issues such as the implication of the need to change proposed subsidiary audit timings to meet group reporting requirements and subsidiary materiality requirements being separate from group materiality

# ***CR November 2017 question 1 – How did candidates perform?***

Failing candidates tended to answer by repeating points i.e. Looking at the change in controls, applying this to revenue and then to pensions, redundancy, bonus, then looking at incentives to manipulate applying this to revenues and then to pensions, redundancy, bonus and so on.

# *CR November 2017 question 1 – How did candidates perform?*

## **Ethics**

- Most identified a self-interest threat from the consultancy work, intimidation was less well treated.
- A significant minority still managed to discuss the ethics for the wrong party.

# *CR – November 2017 – Question 2 Wayte*

## Scenario

The candidate is working in industry for a manufacturing company called Wayte Ltd. Returning from sick leave, the candidate is required to redraft information schedules to support an application for a £10 million loan from the bank

## Requirements:

- Explain the financial reporting adjustments
- Revised information schedule for the bank including all relevant adjustments.
- A report for the board to analyse and interpret the financial position and performance of Wayte using the revised information schedule and other available information. Provide a reasoned conclusion on whether the bank is likely to advance the £10 million loan

# *CR – November 2017 – Question 2 Wayte*

Wayte	Details
Financial reporting	<ul style="list-style-type: none"><li>• Adjustments required for: an AFS asset which has increased in value but because of the impact of exchange rate, has suffered a loss which is taken to OCI;</li><li>• a FVTPL investment where the increase, a profit, goes to PorL;</li><li>• revenue incorrectly recognised which requires an understanding of the similarities between IAS 18 and IFRS 15; and</li><li>• the current or deferred taxation implications of the adjustments.</li></ul>

# *CR – November 2017 – Question 2 Wayte*

## **Financial reporting**

- Done very well!
- Most candidates got the key elements of the treatment of the PSN and LXP instruments and the adjustment required in respect of the service element of the contract, together with some basic principles in relation to the tax accounting
- Candidates illustrated a firm understanding of the treatment of AFS and the matching deferred tax treatment within reserves. Weaker students often failed to appreciate the current tax implications caused by the FVPL financial asset.

# *CR – November 2017 – Question 2 Wayte*

## **Preparation of revised extracts**

Some of the more common errors were:

- Lack of workings, particularly for the ratios
- Adjusting cash from operations
- Incorrect calculation of ROCE based on cash from operations.
- Basic errors in calculating capital employed

But otherwise – most had a good attempt at this section

# *CR – November 2017 – Question 2 Wayte*

## **Interpretation and analysis**

- This was mostly done very well.
- Weaker candidates could not unpack the cash flow issues to reconcile the positive operating cash flows with the end of year overdraft.
- Better candidates were able to analyse the statement of cash flows, highlighting the core strength of the business and commenting on the high dividend payment and the repayment of the directors' loans
- Weaker candidates simply focused on a decrease in revenue and the presence of an overdraft, showing poorer analytical skills as they concentrated on two figures rather than understanding the context of the situation

# *CR – November 2017 – Question 3 SB plc*

Question 3	
Financial reporting	Evaluate whether an AFS investment of the client, should be accounted for as an associate or a subsidiary – control issue with a call option and share options
Assurance	<p>Review the work of an audit associate - weaknesses identified in control procedures and data analytics of the clients purchase and payables.</p> <p>The data analytics indicates that although the number of unmatched GRN's would indicate an under recording of purchases and payables, the client has made two adjustments; a large GRNI accrual and an adjustment for a debit balance on its largest supplier's account. Comparing the analytics with this information indicates that purchases and payables are overstated rather than understated.</p>

# ***CR – November 2017 – Question 3 SB plc***

## Financial reporting

There were many good discussions around the principle of control and step acquisitions.

Weaker candidates failed to expand on control and how it was achieved and concluded that CG was an associate

Share based payment was also answered well – common weaknesses were to fail to notice the choice of settlement and incorrect or lack of time apportioning.

Overall this section was attempted very well by most candidates.

# ***CR – November 2017 – Question 3 SB plc***

- Identify any weaknesses in the audit procedures completed by the audit team on the two issues identified

Many candidates expressed these improvements as additional audit procedures rather than the specific deficiencies in the procedures performed.

Weaker answers simply involved repeating facts from the question rather than developing them and linking them to specific audit risks.

- Analyse the information provided in the dashboard to identify the audit risks; and

Many candidates performed a good level of data analysis, identifying the fact that the terms of business with MAK are significantly different to other customers. Good answers produced analysis from the dashboard to identify risks

## ***CR – November 2017 – Question 3 SB plc***

- set out any additional audit procedures that we will need to perform

Most were able to identify sufficient additional procedures to be performed on the payables and purchases balances.

Weaker candidates would often resort to a “knowledge dump” approach. simply listed generic risks and procedures surrounding payables, suggesting rote learning and copying notes out of their study materials.

# *Questions & Answers*



# *Marking session*

Samples scripts

- Not the best! And not the worst!
- Selected to highlight both good and bad exam technique

# *Marking session*

<b>Question 1</b>	<b>Max</b>	<b>Head room</b>	<b>Candidates</b>	
			A	B
<b>1A Financial reporting treatment</b>	18	20		
<b>1B Explain changes to elements of planned audit approach</b>	14	19		
<b>1C Ethical issue</b>	8	10		
	40	49		

# Candidate A Question 1

- Candidate A – Brand and goodwill – shows good skills of applying technical knowledge to the scenario and identifying gaps in information

Unless, the brand <del>is</del> was previously acquired by EF	21
from third party <del>it</del> the value of the brand can be	22
included <del>at</del> in its financial statement at the cost	23
of acquisition and subject to impairment annually.	24
	25
I need to know the nature of the Brand brand	26
which Bob request to recognised in the statement.	27
Is it internally generated by EF or acquired	28
from third party.	

good use of technical knowledge applied to scenario

# *Candidate A Question 1*

- Trade receivables section lacks technical accuracy – but again identifies gaps in information.
- Investment property – becomes a little muddled – not fully able to distinguish the story. But makes some relevant points and we can apply the markplan

1.0 PPE can be revalued at 1 September - model has to be applied consistently

1.0 Rented out portion can be IP - if needs to be capable of being sold separately or leased under a finance lease - need further information

1.0 Rental income £13,333 to profit or loss

1.0 Use numbers - either apportioned or in total

1.0 Uplift of rented out part treated under IAS16 - to OCI

# Candidate A Question 1

- Part b) - the answer is succinct –shows evidence of thinking and structuring. Candidate shows assimilation skills from different parts of the question. But could make more points here – see an overview or the business context – what is the significance of the sales at a lower amount to group companies?
- What are the implications of the control weakness – Cut off perhaps?

Design of controls over revenue and trade receivables
New <del>se</del> international sales has been done during the last quarter. Hence the normal control over the revenue and trade receivables is not applicable to this transactions.
In conclusion, the control need to be retested as complex transactions may occur due to Forex.

# Candidate A Question 1

- Ethics

This lacks depth – has the points about intimidation but does not explore the implications of these threats to independence - a fairly average answer.

Group auditor - Lewis Morson seems putting pressure to MKM's audit team by dictating what need to be done and what need to be excluded from the audit works conducted by MKM.

As stated by ~~Le~~ Peter Petra Newton, the audit of EF need to be expected to be done by 15 February 2018 while the <sup>initial</sup> plan is to finalise the audit in March 2018.

This will increase the possibility of MKM's auditors to not perform up to the standard while trying to compromise with the dateline.

# Candidate B

- Part b - the art of being vague! But is well structured with a good range of points.

The Group audit LM LLP plan to sign off the group audit opinion by 29 Feb 2018 and require Ef auditors to provide info by 15 Feb 2018.

Therefore March 2018 will be too late and this will need to be changed in order to meet this deadline.

missing explanation again

# Candidate B

- Ethics – muddles up audit risks and ethics – but does have some understanding of the need to act independently and not succumbing to pressures.

<u>Staff face cuts</u>	3
Mega B starting to EF will face cuts as fail to meet targets is an intimidation threat.	4
MKM need to ensure all audit work is performed efficiently as have a duty of care to esp shareholders.	5
In addition <del>remain</del> EF CFO should be acting with integrity and objectivity at all times.	6
<u>Familiarity</u>	8
Mega as a consulting client of MKM and as can to win large new contract.	9
There is a self interest threat to meet demands of Mega to win a contract.	10
MKM should act with professional competence + due care of therefore should not agree to terms of Great audit / Mega B if is not correct.	15

but for whom?

hinting here of an understanding of responsibility to act independently

For examiner's use only

but what is 'correct'

# *Marking session*

<b>Question 2 Wayte</b>	<b>Max</b>	<b>Head room</b>	<b>Candidates</b>	
			A	B
<b>2A Explain FR treatment</b>	15	17.5		
<b>2B Adjust the extracts</b>	7	9		
<b>2C Report</b>	8	14		
	30	40.5		

## *Question 2*

Candidate A

Part b) – doesn't make all the adjustments and doesn't show workings

Part a) – a weak to average answer

Part c) – very weak!

Candidate B

Part b) – better – shows workings and understanding

Part a) muddled in parts but an above average answer.

Part c) Slightly better but still pretty weak – we saw much better answers.

# *Marking session*

Question 3	Max	Head room	Candidates	
			A	B
<b>3A Financial reporting</b>	12	14		
<b>3B weaknesses in procedures/ analysis and procedures</b>	18	24		
	30	38		

## *Question 3*

Candidate B –

Part a) – a good answer – mostly technically correct.

Part b) produces some own analysis and infers some audit risks from the information presented

# *Questions & Answers*



